

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Unit Name		County	
Fiscal Year End		Opinion Date			Date Audit Report Submitted to State		

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

**Clayton Township
Arenac County, Michigan
Financial Report
With Supplemental Information
March 31, 2007**

Clayton Township

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INDEPENDENT AUDITOR'S REPORT

Township Board
Clayton Township
Arenac County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Clayton Township as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Clayton Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Clayton Township as of March 31, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on page 2 through page 7 and page 23 to 24 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robertson & Carpenter CPAs, P.C.
Certified Public Accountants
September 28, 2007

Management's Discussion and Analysis

As management of Clayton Township (the "Township"), we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2007.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$340,104 (*net assets*). Of this amount, \$188,126 (*unrestricted net assets*) may be used to meet the Township's ongoing obligations.
- The Township's total net assets increased by \$46,133.
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$188,126, a decrease of \$37,258 in comparison with the prior year. The General Fund balance is \$188,126 at March 31, 2007, 100% of total fund balances. The fund balance in the Special Revenue Fund is \$-0-.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$188,126 or 112% percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *Government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the Government-wide financial statements present functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the Township include general government, public safety, public works and recreation. The Township does not have any business-type activities as of and for the year ended March 31, 2007.

The Government-wide financial statements can be found on pages 8-9 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the Government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a Township's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the Government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains two governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Road Fund.

The Township adopts an annual appropriated budget for its general and special revenue fund. Budgetary comparison statements or schedules have been provided for the General Fund Road Fund herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 10-11 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are *not* reflected in the Government-wide financial statements because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 13-14 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-22 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Township, assets exceeded its liabilities by \$340,104 at the close of the most recent fiscal year.

A portion of the Township's net assets (45%) reflects its investment in capital assets (e.g., infrastructure, land, buildings, vehicles, and equipment). The Township uses these capital assets to provide services to the community; consequently, these assets are *not* available for future spending.

Township's Net Assets

	Governmental Activities March 31, 2007	Governmental Activities March 31, 2006
Current and Other Assets	\$ 200,492	\$ 238,829
Capital Assets, Net	151,978	68,587
Total Assets	\$ 352,470	\$ 307,416
Current Liabilities	12,366	13,445
Total Liabilities	\$ 12,366	\$ 13,445
Net Assets:		
Invested in Capital Assets	151,978	68,587
Unrestricted	188,126	225,384
Total Net Assets	\$ 340,104	\$ 293,971

The Township's net assets increased by \$46,133 during the current fiscal year. Unrestricted net assets—the part of net assets that can be used to finance day to day operations, decreased by \$37,258 or 17%, during year ended March 31, 2007.

Township's Changes in Net Assets

	Governmental Activities March 31, 2007	Governmental Activities March 31, 2006
Revenue:		
Program Revenue:		
Charges for services	\$ 6,717	\$ 6,201
Operating Grants and Contributions	2,918	2,809
General Revenue:		
Property Taxes	58,980	55,176
State-Shared Revenues	76,234	78,069
Interest Earnings	758	573
Other	9,175	4,772
Total Revenue	\$ 154,782	\$ 147,600
Expenses:		
General Government	\$ 87,812	\$ 78,735
Public Works	10,708	14,090
Community Development	5,501	9,181
Recreation and Culture	4,628	2,559
Total Expenses	\$ 108,649	\$ 104,565
Increase (Decrease) in Net Assets	46,133	43,035
Net Assets, Beginning of Year	293,971	250,936
Net Assets, End of Year	\$ 340,104	\$ 293,971

Governmental activities. The governmental revenues of the Township increased by \$7,182 compared to the prior fiscal year. This was primarily attributed to an increase in property tax revenue of \$3,804 and an increase in miscellaneous revenues of \$2,893. Expenses increased by \$4,084. The increase was primarily due to increased general government expenditures of \$9,077 in the current year.

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$188,126, a decrease of \$37,258 in comparison with the prior year. The *unreserved fund balance*, which is available for spending at the Township's discretion, is \$186,126 (100% of this total amount).

The General Fund is the principal operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$188,126. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance each represent 112% of total general fund expenditures.

The fund balance of the General Fund decreased by \$37,258 during the current fiscal year. The fund balance in the Road Fund was \$-0- at the start and end of the fiscal year.

General Fund Budgetary Highlights

The Township's budgets are prepared in accordance with Michigan Law. The most significant budgeted fund is the General Fund. The General Fund budget was not amended during the year. Township expenditures were \$ 52,654 less than budgeted. Fund balance decreased by \$ 37,258 during the fiscal year.

Capital Asset and Debt Administration

Capital assets. The Township's investment in capital assets for its governmental activities as of March 31, 2007, amounted to \$151,978 (net of accumulated depreciation). Investment in capital assets includes infrastructure, land, buildings, vehicles and equipment. Additions totaled \$91,879 during the fiscal year. This amount includes road improvements of \$75,192.

Township's Capital Assets (net of depreciation)

	March 31, 2007	March 31, 2006
Infrastructure	\$ 119,212	\$ 48,370
Land and land improvements	5,655	5,684
Buildings	11,104	1,250
Furniture and Equipment	16,007	13,283
Total	\$ 151,978	\$ 68,587

Additional information on the Township's capital assets can be found in note 4 on page 20 of this report.

Factors Bearing on the Township's Future

The following factors were considered in preparing the Township's budget for the 2007-2008 fiscal year:

- The State of Michigan has made significant cuts in their operating budgets due to a downturn in the economy. For 2006-2007, the Township received \$76,234 in state shared revenue, representing 58% of the revenues in the General Fund. The amounts of state shared revenues for future periods are uncertain and will affect the Township's budgets. Our budgets were prepared with these factors in mind and will be amended as required.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Clayton Township
Township Hall
Sterling, Michigan

Clayton Township
Statement of Net Assets
March 31, 2007

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 176,260
Due from other funds	4,931
Due from other governments	19,301
Capital assets-net (Note 4)	<u>151,978</u>
Total assets	<u>352,470</u>
 Liabilities	
Accounts payable	11,982
Due to other governments	<u>384</u>
Total liabilities	<u>12,366</u>
 Net Assets	
Invested in capital assets	151,978
Unrestricted	<u>188,126</u>
Total net assets	\$ <u><u>340,104</u></u>

See accompanying notes to financial statements.

Clayton Township
Statement of Activities
Year ended March 31, 2007

Functions/Programs	Expenses	Program Revenues		Governmental
		Charges for	Operating	Activities
		Services	Grants	Net (Expense)
				Revenue and
				Changes in
				Net Assets
Governmental Activities				
General government	\$ 87,812	\$ 4,150	\$ -	\$ (83,662)
Public works	10,708	992	2,918	(6,798)
Community development	5,501	1,575	-	(3,926)
Recreation and culture	4,628	-	-	(4,628)
Total governmental activities	\$ 108,649	\$ 6,717	\$ 2,918	\$ (99,014)
General Revenues:				
Property taxes and fees				58,980
State revenues				76,234
Interest and investment earnings				758
Other				9,175
Total general revenues				145,147
Change in Net Assets				46,133
Net assets - beginning of year				293,971
Net assets - end of year				\$ 340,104

See accompanying notes to financial statements.

Clayton Township
Governmental Funds
Balance Sheet
March 31, 2007

	General Fund	Road Fund	Total Governmental Funds
Assets			
Cash and investments (Note 3)	\$ 176,260	\$ -	\$ 176,260
Due from other funds (Note 5)	8,699	-	8,699
Due from other governments	15,533	3,768	19,301
Total assets	<u>\$ 200,492</u>	<u>\$ 3,768</u>	<u>\$ 204,260</u>
Liabilities			
Accounts payable	\$ 11,982	\$ -	\$ 11,982
Due to other funds		3,768	3,768
Due to other governments	384	-	384
Deferred revenue		-	-
Total liabilities	<u>12,366</u>	<u>3,768</u>	<u>16,134</u>
Fund balances			
Unreserved:			
General Fund	188,126	-	188,126
Total fund balances	<u>188,126</u>	<u>-</u>	<u>188,126</u>
Total liabilities and fund balances	<u>\$ 200,492</u>	<u>\$ 3,768</u>	<u>\$ 204,260</u>

Fund Balances - Total Governmental Funds	\$ 188,126
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and are not reported in the funds.

The cost of capital assets is	\$ 188,755	
Accumulated depreciation is	<u>(36,777)</u>	
		151,978

Net Assets of Governmental Activities	\$ <u>340,104</u>
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See accompanying notes to financial statements.

Clayton Township
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended March 31, 2007

	General Fund	Road Fund	Total Governmental Funds
Revenues			
Property taxes and fees	\$ 33,586	\$ 25,394	\$ 58,980
State revenues	79,152	-	79,152
Charges for services	5,417	-	5,417
Interest and rentals	3,466	-	3,466
Sale of assets	1,200		1,200
Other	7,767	-	7,767
Total revenues	<u>130,588</u>	<u>25,394</u>	<u>155,982</u>
Expenditures			
Current:			
General government	85,203	-	85,203
Public works	56,156	25,394	81,550
Community development	5,501		5,501
Recreation and culture	4,299	-	4,299
Capital outlay	16,687		16,687
Total expenditures	<u>167,846</u>	<u>25,394</u>	<u>193,240</u>
Net changes in fund balances	(37,258)	-	(37,258)
Fund balances - Beginning of year	<u>225,384</u>	<u>-</u>	<u>225,384</u>
Fund balances - End of year	\$ <u><u>188,126</u></u>	\$ <u><u>0</u></u>	\$ <u><u>188,126</u></u>

See accompanying notes to financial statements.

Clayton Township
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
Year ended March 31, 2007

Net Change in Fund Balances - Total Governmental Funds	\$	(37,258)
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Amounts reported for governmental activities are different because:

Government funds report capital outlays as expenditures;
in the statement of activities these costs are allocated
over their estimated useful lives as depreciation.

Depreciation expense	\$	(7,009)	
Capital Outlay		<u>91,879</u>	84,870

In the statement of activities, only the *gain* on the sale of
equipment is reported, whereas in the governmental
funds, the proceeds from the sale increase financial
resources. Thus, the change in net assets differs from
the change in fund balance by the cost of the equipment
sold.

(1,479)

Change in Net Assets of Governmental Activities	\$	<u><u>46,133</u></u>
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See accompanying notes to financial statements.

Clayton Township
Fiduciary Funds
Statement of Net Assets
March 31, 2007

	Trust Fund- Pension Fund	Agency Fund Type (Property Tax Collection Fund)
Assets		
Cash	\$ -	\$ 5,802
Investments - at fair value	<u>87,790</u>	<u>-</u>
Total assets	\$ <u>87,790</u>	\$ <u><u>5,802</u></u>
Liabilities		
Accounts payable	-	871
Due to other funds	<u>-</u>	<u>4,931</u>
Total liabilities	<u>-</u>	\$ <u><u>5,802</u></u>
Net Assets - Held in Trust for Pension Benefits	\$ <u><u>87,790</u></u>	

See accompanying notes to financial statements.

Clayton Township
Fiduciary Funds
Statement of Changes in Net Assets
Year ended March 31, 2007

	Trust Fund- Pension Fund
Additions	
Contributions	
Employer	\$ 5,283
Employee	600
Investment earnings	<u>7,870</u>
Total Additions	13,753
 Deductions	
Benefits	-
Administrative expenses	<u>1,238</u>
Total deductions	1,238
 Net decrease	 12,515
 Net Assets Held in Trust for Pension Benefits	
Beginning of the year	<u>75,275</u>
End of the year	\$ <u><u>87,790</u></u>

See accompanying notes to financial statements.

Clayton Township
Notes to Financial Statements
March 31, 2007

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Clayton Township ("the Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies used by the Township:

Reporting Entity

The Township is governed by an elected five member Township Board. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Township's reporting entity, and which organizations are legally separate, component units of the Township. Based on the application criteria, the Township does not contain any component units.

Government-wide and Fund Financial Statements

The Government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities. The Township does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a certain function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Clayton Township
Notes to Financial Statements
March 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, state-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the cash is received by the Township.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund.

The Road Fund is used to account for a voted millage for road improvements in the Township.

Additionally, the Township reports the following funds:

The Pension Trust Fund accounts for the activity of the Township defined contribution retirement plan, which accumulated resources for pension benefit payments to qualified employees.

The Tax Collection Fund accounts for property taxes collected and disbursed to other taxing authorities by the Township as required by law.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers for goods, services or privileges provided and (2) operating grants and contributions. General revenue includes all taxes.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Clayton Township
Notes to Financial Statements
March 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The taxpayers of the Township have their properties assessed as of December 31 and the related property taxes are levied and become a lien on December 1 for 100% of the taxes which are due February 28. The 2006 taxable value of the Township was \$26,674,981. The 2006 tax levy was .8578 for general operating purposes and .9557 for roads, raising \$22,792 for general operating purposes and \$25,394 for roads.

Capital Assets - Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., amounts paid to the Road Commission for the intangible right to use the roads), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation. Infrastructure assets acquired prior to implementation of GASB 34 are not included in the financial statements.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 years
Buildings and additions	50 years
Vehicles	5 years
Office furnishings	5-20 years
Other equipment	5-20 years

Compensated Absences - There is no liability for compensated absences reported in the government-wide financial statements since no Township employees are provided with sick or vacation pay benefits.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriating or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Clayton Township
Notes to Financial Statements
March 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Comparative Data/Reclassifications - Comparative data is not included in the Township's financial statements.

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state laws for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township adopt its budgets by April 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits Townships to amend its budget during the year. There were no budget amendments during the year.

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until the receipt of materials or services. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances are reappropriated in the next year.

Note 2 - Stewardship, Compliance and Accountability

Excess of expenditures over appropriations in budgeted funds:

The Township incurred expenditures in excess of amounts budgeted as follows:

<u>Fund and Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
General Fund			
Recreation and culture	\$ 3,000	\$ 4,299	\$ 1,299
Capital outlay	-	16,687	16,687

Note 3 - Deposits and Investments

At year-end, the Clayton Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Township Total</u>
Cash and cash equivalents	\$ 176,260	\$ 5,802	\$ 182,062
Investments	-	87,790	87,790
Total	<u>\$ 176,260</u>	<u>\$ 93,592</u>	<u>\$ 269,852</u>

Clayton Township
Notes to Financial Statements
March 31, 2007

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the Township is as follows:

Deposits (checking, savings and CDs)	\$ 182,062
Investments	<u>87,790</u>
	<u>\$ 269,852</u>

Investment and deposit risk:

Interest rate risk

In accordance with its investment policy, the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by investing operating funds primarily in shorter term securities and limiting the average maturity in accordance with the Township's cash requirements.

Credit risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRPs). The Township has no investments for which ratings are required.

Custodial credit risk - deposits

In the case of deposits, there is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. State law does not require and the Township does not have a policy for custodial credit risk. At March 31, 2007, \$65,460 of the Township's bank balances of \$233,725 was exposed to custodial credit risk because it was uninsured.

The Township Board is authorized to designate depositories for Townships funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

- a. Bonds, securities, and other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States with remaining maturities of two years or less.
- b. Certificates of deposit of a bank which is a member of the Federal Deposit Insurance Corporation.
- c. Commercial paper rated at the time of purchase within the two highest classifications by not less than two standard rating services.

The Township's deposits are in accordance with statutory authority.

Clayton Township
Notes to Financial Statements
March 31, 2007

Note 4 - Capital Assets

Capital assets activity of the Township's Governmental activities were as follows:

	Balance April 1, 2006	Additions	Deletions	Balance March 31, 2007
Capital assets not depreciated:				
Land	\$ 5,162	\$ -	\$ -	\$ 5,162
Capital assets being depreciated:				
Infrastructure	49,399	75,192	-	124,591
Land improvements	575	-	-	575
Buildings	19,200	10,592	-	29,792
Furniture & equipment	24,740	6,095	2,200	28,635
Subtotal	<u>99,076</u>	<u>91,879</u>	<u>2,200</u>	<u>188,755</u>
Accumulated Depreciation				
Infrastructure	1,029	4,350	-	5,379
Land improvements	53	29	-	82
Buildings	17,950	738	-	18,688
Furniture & equipment	11,457	1,892	721	12,628
Subtotal	<u>30,489</u>	<u>7,009</u>	<u>721</u>	<u>36,777</u>
Net capital assets being depreciated	<u>68,587</u>	<u>84,870</u>	<u>1,479</u>	<u>151,978</u>
Governmental Activities				
Total Capital Assets net of Depreciation	\$ <u>68,587</u>	\$ <u>84,870</u>	\$ <u>1,479</u>	\$ <u>151,978</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 2,330
Public works	4,350
Recreation	329
Total governmental activities	<u>\$ 7,009</u>

Note 5 - Receivables, Payables and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	<u>Amount</u>
General Fund	\$ 8,699	General Fund	\$ -
Road Fund	-	Road Fund	3,768
Fiduciary Funds	-	Fiduciary Funds	4,931
Total	<u>\$ 8,699</u>	Total	<u>\$ 8,699</u>

Clayton Township
Notes to Financial Statements
March 31, 2007

Note 6 - Risk Management

Clayton Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last three years.

Note 7 - Pension Plan

Clayton Township has a defined contribution plan for board members, through John Hancock Life Insurance Company. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of these contributions, and forfeitures of other participant's benefits that may be allocated to such participant's account.

The Township pension plan agreement specifies which Township positions are covered by the plan. Contributions made by a board member and the Township vest immediately. An board member that leaves the employment of the Township is entitled to his or her account balance consisting of the employee and Township contributions, as well as earnings in the account.

During the year, the Township's required and actual contributions amounted to \$5,283 which was 15% of its current year covered payroll plus fees. Covered payroll was \$40,094. Total payroll was \$53,336.

Employer	\$	5,283
Employee		600
Administration Fees		1,238
	\$	<u>7,121</u>

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees. The plan held no securities of the Township or other related parties during the year or at the close of the fiscal year.

Clayton Township
Notes to Financial Statements
March 31, 2007

Note 8 - Joint Area Fire Board

The following financial information as of December 31, 2005 was obtained from the Sterling Area Fire Board.

Total Assets	\$ 43,539	<u>Contributions - 2005</u>	
Total Liabilities	5,783	Adams Township	\$ 10,572
Total Equity	37,756	Clayton Township	20,993
Total Revenue	112,523	Deep River Township	<u>42,979</u>
Total Expenditures	93,478		
Increase in Fund Balance	19,045	Total	\$ <u><u>74,544</u></u>

The contributions from local governments were computed based on SEV.

A copy of financial statements may be obtained at the Township hall at 1057 Dobler Road, Sterling, Michigan.

Required Supplemental Information

Clayton Township
Budgetary Comparison Schedule - General Fund
Year ended March 31, 2007

	Budgeted Amounts		Actual	Variance with Amended Budget
	2007 Original	2007 Final		
Fund Balance - Beginning of year	\$ 230,676	\$ 230,676	\$ 225,384	\$ (5,292)
Resources (Inflows)				
Property tax and fees	25,500	25,500	33,586	8,086
State revenues	75,000	75,000	79,152	4,152
Charges for services	4,700	4,700	5,417	717
Interest and rentals	700	700	3,466	2,766
Sale of assets	-	-	1,200	1,200
Other	4,000	4,000	7,767	3,767
Amounts available for appropriation	<u>340,576</u>	<u>340,576</u>	<u>355,972</u>	<u>15,396</u>
Charges to Appropriations (Outflows)				
General government	108,500	108,500	85,203	(23,297)
Public safety	3,500	3,500	-	(3,500)
Public works	99,500	99,500	56,156	(43,344)
Community development	6,000	6,000	5,501	(499)
Recreation and culture	3,000	3,000	4,299	1,299
Capital outlay	-	-	16,687	16,687
Total charges to appropriations	<u>220,500</u>	<u>220,500</u>	<u>167,846</u>	<u>(52,654)</u>
Fund Balance - end of year	\$ <u>120,076</u>	\$ <u>120,076</u>	\$ <u>188,126</u>	\$ <u>68,050</u>

Clayton Township
 Budgetary Comparison Schedule - Road Fund
 Year ended March 31, 2007

	Budgeted Amounts		Actual	Variance with Amended Budget
	2007 Original	2007 Final		
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows)				
Property tax and fees	25,500	25,500	25,394	(106)
Amounts available for appropriation	25,500	25,500	25,394	(106)
Charges to Appropriations (Outflows)				
Public works	25,500	25,500	25,394	(106)
Total charges to appropriations	25,500	25,500	25,394	(106)
Fund Balance - end of year	\$ 0	\$ 0	\$ 0	\$ 0



ROBERTSON & CARPENTER CPAs, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Other office: Mio, Michigan

Rodney C. Robertson, CPA

Robert J. Carpenter, CPA

September 28, 2007

Township Board
Clayton Township
Arenac County, Michigan

In planning and performing our audit of the financial statements of the governmental activities and the major fund of Clayton Township as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Clayton Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Township's financial statements that is more than inconsequential will not be prevented or detected by the Township's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Lack of adequate controls to produce full-disclosure GAAP basis financial statements.

Requirement: All Michigan governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Township's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: The Township, as is common with smaller and medium-sized entities, has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal controls.

Cause: This condition was caused by the Township's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time

and expense of obtaining the necessary training and expertise required for the Township to perform this task internally.

Effect: The result of this condition is that the Township lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of responsible officials: The Township has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Township to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

This communication is intended solely for the information and use of management, the Township, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Robertson & Carpenter CPAs, P.C.
Certified Public Accountants



Rodney C. Robertson, CPA
Robert J. Carpenter, CPA

ROBERTSON & CARPENTER CPAs, P.C.

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September 28, 2007

To the Township Board
Clayton Township
Arenac County, Michigan

We have audited the financial statements of the Clayton Township for the year ended March 31, 2007, and have issued our report thereon dated September 28, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 1, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Clayton Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Clayton Township are described in Note 1 to the financial statements. No new accounting policies were implemented during the year ended March 31, 2007. We noted no transactions entered into by Clayton Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Clayton Township's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Clayton Township, either individually or in the aggregate, indicates matters that could have a significant effect on Clayton Township's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Clayton Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Other Comments

Pension Plan

The pension report of actual wages for the period from April 1, 2006 to March 31, 2007 was not completed and submitted to John Hancock in a timely manner. The contribution for the year was also not remitted timely, potentially reducing earnings for plan participants. The pension reports and payments should be made in a timely manner.

Clerk's Accounting Records

The Clerk's journals and general ledger were not posted in a timely manner. The accounting records should be completed monthly and cash balances reconciled to the Treasurer's reconciled balances.

Bank Deposits

In some instances, money was not deposited timely since the funds were received by Township officials other than the Township Treasurer. All funds should be turned in to the Treasurer and deposited to Township bank accounts in a timely manner.

This information is intended solely for the use of the Township Board and management of Clayton Township and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Robertson & Carpenter CPAs, P.C.
Certified Public Accountants